

Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

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*A Negotiated End to the Iran-Iraq War:  
A Speculative Look at the Implications for the Middle East  
and US Interests*

*Summary*

*An end to hostilities between Iran and Iraq will force the two belligerents, key Arab states, and Israel to search for new ways to protect their vital political and security interests in a more uncertain and fluid environment. Iraq and Iran will be likely for some time to focus their energies on securing economic and military aid, mainly from the West, expanding political influence in the Gulf, and preserving cold peace with each other. Gulf Arab states will try to balance their relations between Iraq and Iran, giving reconstruction aid to both. They probably will have to contend with some subversive tactics by both Tehran and Baghdad.*

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*Israel and Syria will see a serious military threat from Iraq's powerful armed forces and will face expanded Iraqi and possibly Iranian involvement in the Arab-Israeli arena.*

*--Iraq will "punish" Syria for its support of Iran in the war through subversion or perhaps even sabotage of Syrian economic and military facilities.*

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This memorandum was prepared by [redacted] of the Issues and Applications Division, Office of Near Eastern and South Asian Analysis, with a contribution from [redacted] Persian Gulf Division. Comments and queries are welcome and may be directed to Chief, Issues and Applications Division, NESA [redacted]

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For the United States, the outlook is mixed. Both Iraq and Iran probably will try to strengthen ties to the United States, with each reacting adversely to any success by the other. Gulf Arab states almost certainly will maintain close security ties to Washington, although they will seek lower profile avenues of cooperation as a way to assuage Iran. [redacted]

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The impact of peace between Iran and Iraq on the Arab-Israeli conflict may be the biggest question mark [redacted] An end to the Gulf conflict, in our view, increases the risk of another Arab-Israeli war over the medium and long term, [redacted]

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#### Iraq and Iran: Capitalizing on Peace

Even if a comprehensive peace agreement is reached, Iraq and Iran almost certainly expect to be locked in a cold war for the foreseeable future. We believe Baghdad and Tehran will work to prevent the outbreak of hostilities for several years, but both--and most of their neighbors--probably will assume another war will break out before the turn of the century because of deeply rooted Arab-Persian differences, strong competition for political dominance in the Gulf, and the ideological clash between Islamic fundamentalism in Iran and secularism in Iraq. Neither state, in our view, will be satisfied with the outcome of the eight year war. [redacted]

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Iraq. Iraq clearly sees itself as victorious in the war and is likely to tout itself as the dominant military and political power in the region. Indeed, we believe Iraq will use victory as a springboard to gain hegemony in the Gulf, and President Saddam Husayn will expect the Gulf Arabs to line up behind Baghdad's political lead.

--Iraq does not see itself indebted to the Gulf Arab states for their material and financial support in the war. On the contrary, Baghdad considers the Gulf Arabs indebted to Iraq for preventing the export of the Iranian revolution to their soil. Iraq has no intention of repaying more than \$35 billion in aid given by the Gulf Arabs since the war began. [redacted]

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Iraq will seek regular demonstrations of continued Gulf Arab support. As a start, it probably will ask for a war reconstruction fund underwritten by the Gulf states and will argue against Kuwaiti and Saudi efforts to cut back on oil sold on Iraq's behalf from the Neutral Zone. Baghdad will work against an improvement in Gulf Arab relations with Iran and will try to influence the pace and scope of Iran's political rehabilitation. Baghdad's measures may include:

--Pushing for formal security and military agreements with--perhaps even full membership in--the Gulf Cooperation Council to give Iraq influence over Gulf Arab defense and economic planning.

--Strengthening leftist antiregime groups in the Gulf as a warning to Gulf Arab leaders to heed Baghdad's directives. Iraq, however, will try to make sure that these efforts to weaken the Gulf states do not benefit pro-Iranian dissidents.

--An effort to acquire Kuwait's Bubiyan and Warbah islands, strategically located at the mouth of the Shatt al-Arab, and other disputed territory along the Kuwaiti-Iraqi border, as part of a post-war muscle-flexing strategy. Such efforts are likely to succeed only if Iraq uses military force. [REDACTED]

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Further afield, Iraq almost certainly will move to settle scores with Syria, which has steadfastly supported Iran in the war. Once peace is secured on Iraq's eastern front, we believe Baghdad will undertake a major effort to destabilize the Assad regime. Iraq may even try to sabotage some strategic Syrian facilities or provoke military tensions along the Syrian-Iraqi border, with an eye to aggravating Syria's already strained economy. The Iraqis probably are confident that the Syrians would avoid any response that might lead to a major conflict.

--We judge prospects for a post-war rapprochement between a Saddam-led Iraq and an Assad-led Syria to be remote. [REDACTED]

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Baghdad probably will try to challenge Syrian interests in the Levant by giving financial and logistical support to PLO leader Arafat and Fatah and to foes of Damascus such as the Lebanese Forces. Iraq will also try to reduce Syria's role as the dominant Arab confrontation state with Israel.

--Baghdad may even adopt a moderate stance, initially, on terms for Arab-Israeli negotiations and peace in an effort to engineer an anti-Syrian diplomatic bloc made up of Iraq, Egypt, Jordan, and the PLO. Over time, however, we believe Iraq's position on Arab-Israeli questions will become more hardline. We also expect relations between Egypt and Iraq to sour eventually, as they jockey for political predominance in the Arab world. [REDACTED]

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Meanwhile, Baghdad is likely to strike at the rebellious Kurds with a vengeance after the war. The Kurdish rebellion is likely to collapse and go back to a nuisance status within weeks of a cease-fire, as it did after Iran withdrew its support for the Kurds in 1975. [REDACTED]

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Iraq's post-war strategy probably will put heavy emphasis on economic reconstruction and expanding commercial and political ties to the West, including

the United States. We believe Baghdad will see good relations with Washington as a balance to its close ties to Moscow and a way to keep the United States from drifting too closely toward Iran. Iraqi leaders probably also hope that good ties to the United States will prompt US business investment after the war, particularly in the oil exploration and development fields. [REDACTED]

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Iran. Iran's post-war strategy is certain to be heavily influenced by internal political developments. If Assembly Speaker Rafsanjani maintains his preeminence, Tehran is likely to seek political accommodation with Gulf Arab states to pull them away from Iraq's political coattails. Gaining reconstruction aid and reestablishing trade and commercial links with Gulf states will be top priorities for Iran.

--Still, Iran probably will provide clandestine training and support to dissident Gulf Arab groups and to encourage Shia activists throughout the Gulf to engage in antiregime activities; the overthrow of Sunni monarchies in the Gulf will remain a long-term political objective of the Iranians.

--In the event Rafsanjani were pushed aside and more radical elements assumed power, Tehran probably would focus more heavily on exporting the revolution by sponsoring sabotage and other subversive operations against Gulf Arab states. [REDACTED]

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Iran is unlikely to cut back its heavy involvement in Lebanon and may provide more funds to Hizballah to increase its political and military options. Although Tehran may be less sensitive to Syrian objections to this support after the war with Iraq is over, Iran will still need good relations with Damascus to ensure the flow of arms, material, and personnel to Lebanon.

--An end to the war will not, by itself, assure the release of the Western hostages in Lebanon over whom Iran exerts some control; their release depends primarily on Tehran's interest in improving its relations with Washington and other Western capitals, and on Hizballah's willingness to give up the hostage card. [REDACTED]

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There may be some increase in Iranian meddling in Afghanistan, but it will mainly emphasize materiel support to Shia insurgent groups. In a much less likely scenario, Tehran could send some Revolutionary Guards to Afghanistan to provide a battlefield for its more zealous members and, at the same time, move potential troublemakers out of Iran. [REDACTED]

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Iranian interest in improving relations with the United States after the war will depend largely on internal political developments, and the coming to power of radical elements could lead to a more hostile Iranian policy toward the United States. Nonetheless, an end to the war will remove a major obstacle to improved relations, and we believe some Iranian leaders may see less hostility toward

Washington in Iran's political and economic interests. Tehran probably will calculate that its willingness to improve relations with Washington would help slow further improvement in US-Iraqi relations, which they almost certainly want to prevent. [REDACTED]

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Some improvement in Iranian-Soviet relations are likely after the war, but longstanding Iranian suspicion about Moscow's intentions in southwest Asia as well as deeply rooted anti-Communist sentiment among the Iranian people weigh against a sharp upturn. Tehran might offer Moscow some economic opportunities in Iran's reconstruction program to gain Soviet interest. In the event the West proved unwilling to provide Iran with economic and military assistance after the war, Tehran probably would try to attract an expanded Soviet role. [REDACTED]

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#### The Gulf States: Seeking a Regional Balance of Power

Gulf Arab states have made tremendous strides over the past eight years in bolstering their militaries and cooperating on security issues. They are likely to continue to pursue, even accelerate, these strategies after the war's end. [REDACTED]

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We believe all Gulf Arab leaders are deeply suspicious of long-term Iraqi and Iranian aims in the region and see balanced relations between the two major Gulf powers in their best interests. The Gulf states probably are willing to contribute several billion dollars to a post-war reconstruction fund for both Iran and Iraq, although the amount probably will fall far short of Tehran's and Baghdad's expectations.

--Major Gulf Arab financial commitments to a reconstruction fund would greatly reduce their willingness and ability to provide aid to other Arab states. Still, the Gulf states will provide some financial assistance to other Arab capitals to maintain good relations. [REDACTED]

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Saudi Arabia, which will continue to be the leader of Gulf Arab interests after hostilities end, will almost certainly attempt to chart a path of political balance between Iraq and Iran. [REDACTED]

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In a less threatening post-war environment, Gulf Arab states probably will seek less overt ties to Washington to appease the Iranians and to prevent the development of domestic and regional criticism that they consort too closely with Israel's main benefactor. Nonetheless, the Gulf Arabs will seek to maintain fundamental security links to the United States after the war, both as insurance in the event of renewed fighting and as a reminder to Iran and Iraq that Washington has a strong stake in Gulf political stability.

--Arms purchases from Europe will allow the Gulf Arabs to preserve close security ties to the West while putting distance between themselves and Washington. [REDACTED]

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#### The Oil Issue: Downward Pressure on Prices

An end to the war almost certainly will put downward pressures on oil prices. Psychological factors, particularly market expectations that both Iraq and Iran will increase production to assist in post-war reconstruction, will play a key role in price movements. The stability of the market will depend on how OPEC accommodates the demand by both countries to increase exports. [REDACTED]

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Of the two belligerents, Iraq is more likely to increase its oil production substantially. We believe Baghdad will try to boost its production as much as possible without disrupting the oil market. It could easily miscalculate, however, leading to increased production by other OPEC members and more pressure on prices. Oil prices, in such a scenario, could fall to less than \$10 per barrel. [REDACTED]

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The greater deterioration of Iran's oil sector during the war limits its ability to increase production dramatically. Tehran, traditionally a price hawk in OPEC, probably will push for OPEC production restraints to rein in Iraq and shore up prices. Moreover, the promise of a multibillion dollar reconstruction fund will encourage oil policy moderation by Iran so as not to antagonize Gulf benefactors. [REDACTED]

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#### The Arab-Israeli Arena: Israel and Syria See Problems

Israel and Syria almost certainly are alarmed about the potential consequences of an end to the Iran-Iraq war. In addition to Iraq's large, well-equipped, and battle-hardened standing army, its long-range ballistic missile and fighter bomber capabilities are viewed by both Tel Aviv and Damascus as security threats. Even a temporary modus vivendi between Iran and Iraq that freed up some Iraqi military assets, in our view, would be disconcerting to the Israelis and the Syrians.

--There almost certainly will be less Israeli and Syrian consternation about Iran's post-war agenda, although Tehran's troublemaking capabilities in Lebanon and, to a lesser extent, among Palestinians will be of concern. [REDACTED]

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Syria. Despite the Iraqi menace, the Syrians are unlikely to try to mend fences with Baghdad in the near term; neither contrition nor a sharp reversal in policy is in keeping with Assad's personal style. To counter any Baghdad-mounted subversive effort, Damascus will crack down even harder on its already weak internal foes and increase support to dissident Iraqi groups--encouraging them to

mount a subversive campaign against Saddam Husayn's regime; Assad would prefer a war of subversion and terrorism to a military confrontation. [REDACTED]

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Aside from a visceral disdain for Saddam, Assad will still see political and economic benefit in maintaining close relations with Iran. In particular, Damascus will see good relations with Iran as insurance against a showdown in Lebanon between Syria and Hizballah, which would undermine Syrian efforts to engineer Lebanon's political reconstruction. [REDACTED]

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--The Syrians probably also believe that an improvement in Iran's post-war economy will lead to a gradual increase in economic assistance from Tehran. Despite its economic hardships during the war, Iran provided Syria with gratis and concessionary oil shipments to keep Damascus in Iran's camp. [REDACTED]

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#### Implications for US Interests

An end to the war will have several positive near-term benefits for US interests in the Middle East. In addition to reducing the risk to US naval forces and commercial shipping in the Persian Gulf, it will:

- Ensure the free flow of oil from the Persian Gulf to the West.
- Reduce military threats to Gulf Arab states.
- Remove a major obstacle to improvement in US-Iranian relations.
- Reduce the threat, at least temporarily, of the export of a militant brand of Islamic fundamentalism from Iran that has a strong anti-US focus. [REDACTED]

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But an end to the war will also accelerate a number of regional developments and trends that may pose risks to US interests over the medium- and long-term. In addition to the uncertainty over how an end to the war will effect Iran's internal politics and foreign policy, some major trouble spots that we see on the horizon include:

- Iraq's likely pursuit of political and military hegemony in the Persian Gulf and beyond. Gulf Arab states may eventually look to the United States for protection from Baghdad.
- Friction between Iraq and Syria, which could develop into a major political and military slugfest between two Arab heavyweights.
- Expanded Iraqi involvement in Arab-Israeli issues, which probably will complicate Arab efforts to forge a united position on terms for peace talks as Syria, Egypt, and Iraq pursue different agendas and objectives.



--Attempts by Iran to increase its influence with Afghan, Lebanese,  
and Palestinian groups as a way to keep alive its long-term aim of  
exporting its Islamic revolution to other states in the region.

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